Four Quick Lessons on Asset Protection, Tax Reduction and Developing a Thriving Sports Medicine Practice

WEALTH

PROTECTION PLANNING

For Orthopaedic Surgeons and Sports Medicine Specialists

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WEALTH PROTECTION PLANNING FOR ORTHOPAEDIC SURGEONS AND SPORTS MEDICINE SPECIALISTS: FOUR QUICK LESSONS ON ASSET PROTECTION, TAX REDUCTION AND DEVELOPING A THRIVING PRACTICE IN SPORTS MEDICINE

By Peter J. Millett, MD, MSc, David B. Mandell, JD, MBA,
Jason M. O'Dell, MS, CWM and Carole C. Foos, CPA

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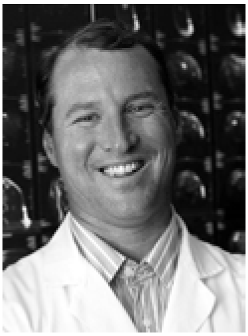

Peter J. Millett, MD, MSc

Dr. Peter J. Millett is an orthopaedic surgeon and partner at the internationally renowned Steadman Clinic in Vail, Colorado. Prior to coming to Vail, Dr. Millett held a faculty appointment at Harvard Medical School and was formerly Co-Director of the Harvard Shoulder Service and the Harvard Shoulder Fellowship. While in Boston, he also founded and directed the Musculoskeletal Proteomics Research Group at Harvard, where his team discovered and patented the protein profile for osteoarthritis. His clinical practice in Boston was based at the prestigious Brigham & Women's and Massachusetts General Hospitals.

He has authored over 100 peer-reviewed, scientific articles, numerous book chapters, and two books on orthopaedics, sports medicine, and shoulder surgery. His academic work has been recognized with awards from several international societies, including the 2010 Achievement Award from the American Academy of Orthopaedic Surgeons for his contributions to the field.

Dr. Millett also serves as a shoulder and sports medicine consultant to the country of Bermuda and has treated elite athletes from the NFL, NBA, MLB, NHL, X-Games and Olympics. Board Certified by the American Board of Orthopaedic Surgery, Dr. Millett is also a member of numerous academic societies including the American Academy of Orthopaedic Surgeons, the American Shoulder and Elbow Surgeons, the American Orthopaedic Society for Sports Medicine, the Orthopaedic Research Society and the Arthroscopy Association of North America. Dr. Millett is also affiliated with the United States Ski and Snowboard Association and has served as a team physician for the U.S. Ski Team and as a consultant to the Montreal Canadiens, professional hockey club.

A native of Pennsylvania, Dr. Millett received his undergraduate degree from the University of Scranton, in Scranton, Pennsylvania and his medical degree from Dartmouth Medical School in Hanover, New Hampshire. He also studied as a research scholar at the University of Cambridge in England, where he was awarded a master's degree in science for his work in skeletal biology.

David B. Mandell, JD, MBA

David B. Mandell is a principal of OJM Group, attorney, author, and renowned authority in the fields of risk management, asset protection and financial planning. Mr. Mandell is co-author of the books *For Doctors Only: A Guide to Working Less* and state versions of the book for physicians in California, Ohio, Georgia and New York.

Mr. Mandell has also written two books for John Wiley & Sons, Inc., the oldest publisher in the U.S.: *Wealth Protection: Build & Preserve Your Financial Fortress* and *Wealth Secrets of the Affluent*. His previous books include *The Doctor's Wealth Protection Guide*, *Wealth Protection, MD* and the Category I CME Monograph *Risk Management for the Practicing Physician*, which continues today in its 6th printing.

Mr. Mandell has also published articles in more than 50 medical publications, and has addressed many of the nation's leading medical conferences, including the American Academy of Ophthalmology, the American Section of the International College of Surgeons, the American Association of Neurological Surgeons, the American Academy of Dermatology, the American Society of Plastic Surgeons, the American Society of Aesthetic Plastic Surgeons, and numerous others.

Mr. Mandell graduated with honors from Harvard University. His law degree is from the UCLA School of Law, where he was awarded the American Jurisprudence Award for achievement in legal ethics. While at UCLA, he also earned an MBA from the Anderson School of Management.

Jason M. O'Dell, MS, CWM

Jason M. O'Dell is a principal and managing partner of OJM Group with offices in Arizona, Florida, New York and Ohio. Mr. O'Dell is a co-author of the book *For Doctors Only: A Guide to Working Less & Building More* and *For Ohio Doctors: Shedding Light on Asset Protection, Tax & Estate Planning*. He has experience as an entrepreneur, financial consultant and investment advisor and has been working with high-net worth and physician clients for more than 20 years. Mr. O'Dell has conducted financial planning, asset protection and wealth management lectures throughout the nation and has been recognized by Medical Economics as "One of the Best Financial Advisers to Physicians" and by *Cincinnati Magazine* as a "Top Wealth Manager."

Mr. O'Dell graduated with a Bachelor of Arts in Economics from The Ohio State University and has earned a Master of Science degree with an emphasis in financial planning. He serves on the Board of Directors of the Alzheimer's Association of Greater Cincinnati and is a member of the Financial Planning Association, Cincinnati Estate Planning Council and the Advisory Board of Partners Financial.

Carole C. Foos, CPA

Carole Foos is an OJM Group principal and Certified Public Accountant (CPA) providing tax analysis and tax planning services to OJM clients. Carole is a co-author of several financial resources for physicians including *For Doctors Only: A Guide to Working Less & Building More*, *Wealth Protection Planning for Orthopaedic Surgeons and Sports Medicine Specialists* and the Category I CME Monograph *Risk Management for the Practicing Physician*. She has also authored numerous articles and presented lectures and web seminars on tax planning and financial topics.

Carole graduated with a BSBA from Xavier University in Accounting and has more than 20 years of experience in public accounting in the field of taxation. She was formerly a manager in the tax department of a Big 4 firm and spent several years in public accounting at local firms.

Over the course of her career, Carole has been a tax consultant to both individuals and businesses providing compliance and planning services, and currently maintains a tax practice in addition to her work with OJM.

Cheyenne Brinson, CPA, MBA

Cheyenne Brinson is a consultant with Karen Zupko & Associates (KZA) in Chicago. For over a decade, she has helped physician practices, ranging in size and specialties, solve business problems. She draws upon her experience as a CPA and her hands-on practice management experience to help surgeons across the country build solid internal controls, reduce overhead, reduce risk and increase revenue. Ms. Brinson works extensively with orthopaedic, plastic surgery, otolaryngology, neurosurgery, general surgery, and vascular surgery practices, from solo practices to group practices, to increase efficiencies for collections improvement and leverage overhead costs.

Ms. Brinson is also an instructor for KZA's national coding and reimbursement workshops sponsored by the American Academy of Orthopaedic Surgeons (AAOS) and the American Academy of Otolaryngology - Head and Neck Surgery Foundation (AAO-HNSF).

Ms. Brinson holds a Master's of Business Administration and Bachelor's degree in accounting from Troy State University (now Troy University) in Troy, Alabama. She is an inductee to the Accounting Hall of Honor in recognition of her professional accomplishments.

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Introduction

From Peter J. Millett, MD, MSc

As a busy surgeon, I know time is a physician's most valuable asset, and I appreciate and thank you for committing some of your time to reading our short book. I do think your time will be very well spent, as many of the warnings or insights I attempt to provide, as well as the solutions that my co-author experts explain, may have a significant impact on your long term financial well-being. In that vein, I would also like to quickly thank Jason and David for writing this book with me, along with Cheyenne Brinson for her contributions as well.

All of us experience the same feeling at some point, usually after a hectic day at the practice—where we think about how quickly time has passed since we were in medical school or fellowship.

"Can it really have been five, ten, or even 20 years since my first day at this practice?" This is a natural feeling. However, what is scarier than thinking about the time that has passed, is wondering about the plans you have made and how they will affect your future. "Have I planned—or planned well—for my financial future?"

For the first year or so in practice, we were happy to be earning "real" money after years living on a trainee's salary. As our practices grew, we saved a little and spent more, because that's what we're expected to do. Perhaps we even utilized an advisor or specialist to help us plan for the future.

Some of the planning may have helped and some may have been inadequate. Rarely was the planning as comprehensive as it needed to be, and rarely was it focused on our specific needs as an orthopaedic surgeon. We may have even made bad investments and lost money.

Because of the conflicts of interest that exist in the financial services industry, many physicians rightly feel that they are being sold a product or solution rather than being diagnosed and treated based on their particular circumstances. I can personally attest that I spent years looking for better advice in the fields of tax planning and asset protection before I felt that I was getting the proper advice my specific situation warranted.

Most of us face the same challenges. We start earning some money, buy a house, have a family, and try to save for our kids' education and for our own retirement. At the same time, we run a busy practice that absolutely demands most of our attention. We are highly trained in medicine, but not always in money matters. Most of us become high-income earners, yet at the end of the year we wonder where that income went. Unfortunately, we learn that most of our income comes to us as ordinary income—taxed at the highest level. We work the first five or six months of the year to pay Uncle Sam.

Furthermore, because of the nature of our profession, we also learn that we have significant exposure to lawsuits from malpractice and other business-related risks—especially for those of us who own our own practices.

We are all highly educated, yet we have little, if any, training in business skills, asset protection, tax, or retirement planning, and with our busy lives, we don't have the time to learn on our own. We not only fail to take advantage of strategies that could save us money, but many times we actually "invest" in risky strategies that end up not working out, losing money, or, worse—costing us money over and above our principal—simply to extricate ourselves from a bad situation.

Often times, simply out of inertia, we continue to use the same advisors that our family used, or that our neighbor recommended, or that we have kept since residency—even if the advisor hasn't really shown much value.

I know I have done this. As the old saying goes: "*We don't know what we don't know*." We typically do not have the skills or experience to examine our own tax returns, our wills, our asset protection planning, or our insurance products, and thus we don't know if we could do any better. We haven't been trained in these specialties, yet we often think we know what we need. As is the case in our field, I think it is important to consider second opinions and to be open to new strategies that are targeted to our needs.

The purpose of this book is to open your mind to different ideas and concepts. For many of you, this book will serve as a handbook of new approaches—not all of which will be new or appropriate for your current stage of life—but may be later. For others, this book may reinforce concepts that you are already aware of, but it may introduce you to more sophisticated strategies for building upon your existing structure.

In the following four sections, we will discuss issues that have become important in my own personal situation and in those of colleagues I know well. We will be the patients in this book and my co-authors will be the tertiary care specialists who will help us come up with the best diagnosis and treatment.

In each of the four sections, I will lay out specific challenges I have seen, and my co-authors, the specialists, will educate you on various "Lessons" to deal effectively with those challenges. They will share some of the best strategies to protect your assets, reduce your taxes, and plan for retirement, while at the same time offering suggestions on developing and growing your most important income producing asset—your orthopaedic or sports medicine practice.

You may find that certain strategies discussed are not right for your particular situation. That's natural, as not every doctor who reads this book is in the same situation. However, we do think it is useful to at least be aware of the various options that are available, so that an overall financial roadmap can be developed. Perhaps the planning and asset protection tools described herein, even if not useful today, may be of use in the future.

We hope this book will serve as a useful reference, a resource for tax planning, asset protection, and practice building. But we also hope it will be more. We hope that the book will not only get you thinking about financial planning and asset protection, but it will also serve as a call to action for planning your financial future. As the late, great coach John Wooden said, "Failing to plan is planning to fail."

So think carefully and take action so you can start planning for a financially sound future. Being goal-oriented orthopaedic surgeons, we know that if you can envision it, you can plan for it, and you can make it happen.

Again, thanks for your time and happy reading.

From David Mandell, JD, MBA, Jason O'Dell, MS, CWM and Carole Foos, CPA

We thank Peter for his invaluable contribution to this book, and we thank you for taking the time to read it. As Peter described, this book has been created in a "discuss challenge/discuss solutions" format. In each of the four areas, Peter will describe a particular challenge he has seen in practice or personal planning and we (along with consultant Cheyenne Brinson, CPA, MBA from Karen Zupko & Associates) will describe potential solutions to the challenge in our Lessons.

Our firm has worked with Peter for a number of years, and we have helped over 1,000 physicians of all specialties throughout the U.S. Our material in this book describes some of the ways we help our doctor clients every day. Some of the writing here is unique to this text, while some comes from our seven other books written over the years, starting with *The Doctor's Wealth Protection Guide* and the CME piece *Risk Management for the Practicing Physician* in 1998 and continuing to our latest book, *For Doctors Only: A Guide to Working Less & Building More*.

If anything in this book sparks your interest, we encourage you to contact us. We are always available for a free consultation to answer questions or to see how we might be able to help you, given your situation. You can reach us at ***mandell@ojmgroup.com, odell@ojmgroup.com*** or 877-656-4362.

CHALLENGE 1

What I've Learned About the Practice of Medicine

From Peter J. Millett, MD, MSc

One key lesson I have learned in my career is that, for many of us, in order to truly enjoy a rewarding career, we have to focus some of our time and energy on "business"–type issues, as well as clinical ones.

We live in uncertain times, particularly in medicine and orthopaedic surgery. New healthcare reform, lack of transparency in billing practices, and declining reimbursements all affect our present practice of medicine.

Most of us recognize these uncertainties, but we are too busy caring for patients to understand how the coming changes will influence us. We take a "wait and see" or reactionary approach—when often, a better approach would be to prepare and plan pro-actively. In general, most of us earn a good living, but I believe that through knowledge and education we can also prepare for a financially sound future.

For all the so–called bad news we hear every day, we also live in very exciting times. New technologies, new inventions, new procedures, and new treatments all allow us to provide better care for our patients with less invasive treatments, faster recoveries, and better outcomes. This is truly exciting and rewarding! Value–driven health care is the new norm, and tracking and improving our outcomes will be an important part of the new practice mandate.

As we prepare for these changes, there are other personal factors that we must consider:

1. How do we practice (solo, group, academic, hospital employee)?

2. How long will we practice?

3. How do we protect our assets in an era of increasing litigation?

4. How will we plan for our families and for the transfer of assets to our children?

5. What role will philanthropy and volunteerism play in our lives?

6. How will we save for retirement?

All of these factors play roles in our daily lives and affect our personal financial situation. In some cases, financial security often impacts our sense of happiness with our chosen field of profession.

At the heart of it, medicine remains an art and a science and the most rewarding of all careers. This is especially true in our field of medicine—orthopaedics and sports medicine—where the art and skill of the surgeon really impacts the outcome for the patients. We are the "captains of the ship," making important decisions for our patients each day.

Unfortunately, many of us don't often develop the same "captain of the ship" commitment to our own careers, our own practices, or our own families. We neglect to plan for ourselves and, as a result, we make bad decisions, or no decisions about where we are going or what we would like to accomplish.

One lesson I have learned is that the cliché of working only "in the business" instead of "on the business" applies to the practice of orthopaedic surgery as well. In this next section, David and Jason will give you some practical insights into how to be more proactive in your practice and your career.

LESSON 1

Be the CEO of Your Career, Even if You are Employed

From David Mandell, JD, MBA, Jason O'Dell, MS, CWM
and Carole Foos, CPA

TRIAGE SUMMARY: You must act as the CEO of your own practice and career, and go beyond "seeing more patients" as a primary strategy. Learn how to use leverage—especially of your advisors and assets—and take advantage of the opportunities around you.

1-1

Work "On" Your Practice, Not Just "In" It

In medicine, patients come to physicians like you when their bodies are unable to heal themselves. Patients who delay seeking medical treatment are missing out on the power of modern medicine and failing to take advantage of an opportunity to dramatically improve their health. Similarly, the financial and legal ailments impacting your medical practice or personal finances cannot be healed without professional care. Simply working harder and hoping that the problems will solve themselves is like the patient hoping his body will heal itself.

Even more likely, you may not even see any problems yourself, but you will not be working at maximum efficiency without consulting an expert. You may think that you are adequately protected, pay the right amount of taxes, or are truly positioned well with your assets—but how do you know without a check–up or second opinion?

"Seeing More Patients"—A Placebo

Confronted with any legal, tax, or financial setback, many doctors follow the business strategy of "seeing more patients." If the practice suffers because of a successful lawsuit, a sudden unforeseen expense, or an unproductive associate, physicians often simply try to "make up for it" by seeing more patients in hopes of billing more—and orthopaedic surgeons follow the same instinct.

The same tactic is followed by many doctors who are behind in their retirement planning, who feel like they are paying too much in taxes, or who are getting divorced. Any financial setback seems to yield the same resulting behavior. Many physicians approach their entire career with the business strategy of working as long and as hard as possible for as long as they can physically endure it. Does this remind you of any of your peers? Do you see someone like this when you look in the mirror?

Certainly, there are many flaws to such a business strategy. Let's examine a few of these flaws so you can understand why other strategies are better:

1. **This strategy has diminishing financial returns**
   Even if you work harder and see more patients, each patient you see will potentially net you fewer dollars. As your marginal expenses for each additional hour of work may be the same and your taxes may increase if you hit new marginal tax levels, your "take home" may actually become less per dollar as you work harder. Even if this is not the case, the next two flaws certainly apply.

2. **This strategy has financial limits**
   Even if you worked as hard as you possibly could and you could make more on each additional dollar earned, you only have 24 hours per day. As a surgeon, do you really think that you can work 18 or 20 hours per day over an extended period of time? How long can you work without your skills suffering? Of course, you are capped in the total income that you can generate by "just seeing more patients."

3. **This strategy will take a great personal toll on you**
   Extreme stress, physical ailments, divorce, decreased life expectancy—these are all common symptoms for all physicians, and especially successful surgeons, who choose "seeing more patients" as their business mantra. Are these extreme personal costs worth it? We think not—especially given #4 below.

4. **There is a better way**
   If working as hard as you could was the only alternative available to allow you to meet your financial

goals, that would be one thing. However, the truth is that there is a much better concept upon which you can build your practice and personal finances. This concept will be explained below.

Use Leverage to Your Advantage

Let's consider the following all-too-common scenario. You work a very long day and generate $10,000 of billings. The insurance companies pay your practice $3,000 for your hard work. Your practice overhead is about 50%, so $1,500 of that income is gross profit. However, the $1,500 isn't yours. Of the $1,500 you actually receive, the Federal, state, and local tax authorities will take 40% to 50% or more in states like California or New York, leaving you with only $750 to $900. In other words, less than 10% of the work you do in a given day actually results in money you keep. This means that you have to do $3,000,000 worth of work in order to generate less than $300,000 of money for you to enjoy. Unless you want to continue to work ten times as hard as necessary, you have to learn to work smarter. This is the key to the concept of **Leverage**.

If you refer to the Merriam-Webster Dictionary and look up the word "Leverage," you will be presented with three definitions:

1. The action of a lever or the mechanical advantage gained by it;
2. POWER, EFFECTIVENESS;
3. The use of credit to enhance one's speculative capacity.

We will offer very simplified interpretations of the three definitions of Leverage stated above. The first definition states that Leverage increases the amount of force exerted. To exemplify this concept, think of Leverage as the act of wedging a stick between two heavy rocks that you could not move with just your hands. In order to efficiently move one of the rocks, you need to push down on the stick that you wedged between the rocks. In doing so, the rock can be moved. Leverage—the wedging of a stick— allows you to move a rock you would otherwise not be able to move.

The second definition of Leverage simply states that the act of Leverage allows people to be more efficient, effective, and powerful. This can be interpreted to mean that Leverage allows people to get more done in less time. It can also be interpreted to mean that Leverage allows people to get a job done with less effort. In either case, Leverage enables people to be more effective.

The third definition of Leverage applies to credit and loans. In this definition, Leverage allows people to buy things they don't have the money to buy in an effort for them to increase their financial capacity. To illustrate this definition, think of a home loan—the $500,000 home that is purchased by a family with only $100,000 of their own money to use as a down payment. Leverage is the ability to enjoy the use of or participate in the upside potential of an investment you otherwise could not afford.

Quite simply, Leverage is a method by which you can do more with less. Less effort. Less money. Less time. If you are looking for a shortcut to financial success, Leverage is the closest thing to it.

The Importance of Leverage

Successful physicians know that Leverage is an important tool to increase their wealth. Without Leverage, people would have to do everything themselves, including running their own business, earning money, handling financial affairs, paying for everything with only their own money, micromanaging everything at work and at home, and still finding time to eat and sleep.

If you feel like this is an accurate description of your life, then you are not using Leverage. Leverage makes your life easier. Leverage frees you to do the things that are most important, most profitable, or most enjoyable to you. Leverage is what allows you to achieve greater levels of financial success. No matter what your financial goals, mastering the art of Leverage and incorporating it into your planning will help you reach these goals faster. As we mentioned earlier, Leverage is how physicians can increase the power and effectiveness of their financial planning. You can do the same.

Financial Leverage: The Foundation of Wealth

For thousands of years, every great construction project required the use of levers to complete the building process. This was true for moving the large stones to build the pyramids of Egypt and lifting the stones for Stonehenge. Levers were used to build all of the great castles, churches, synagogues, and mosques around the world. Financial projects are very similar to construction projects. They can both seem overwhelming at the beginning, a collection of complex tasks that must be executed with skill and precision. The success of both types of projects begins with significant and detailed planning. After the plans are drawn, they must be implemented accordingly. One person alone could never accomplish the implementation of such plans. Instead, the plan requires a team of people working together to accomplish the same goal. For us, that goal is building and maintaining wealth.

Without exception, every high income earner and wealthy family has relied on financial Leverage in one way or another.

Once you grasp the concept of Leverage and the financial applications of Leverage, it becomes impossible to imagine how affluence could possibly be built without it.

Types of Financial Leverage

Physicians can use different types of financial Leverage to create and build wealth. These include:

Leverage of Effort: Since the goal of Leverage is to get more done with less effort, all forms of Leverage require that you leverage your individual effort by including the efforts of others.

Leverage of Assets: Leverage of assets is one way to increase your financial status and get more out of what you currently possess. If you had an unlimited amount of money or land, you wouldn't need to accumulate any more wealth; however, this is not the case for most people. Since we all have limited resources, we want to get the most wealth/asset accumulation and financial protection out of what we have with the least amount of effort and the lowest amount of risk.

Leverage of People: Savvy business owners know that they only have the capacity to do so much and that the Leverage of people is one way to get more than 24 hours out of a day. By leveraging other people's efforts, you can increase the number of tasks you can accomplish in a day. By leveraging people with special skills and expertise you don't possess, you can get things done in much less time than it would take you to do these same tasks, if you could accomplish them at all.

Generally speaking, physicians utilize Leverage to some degree, but they are not thorough in their application. They try to leverage effort by working hard; we know that. Doctors also may try to leverage assets in their practice through medical equipment for which they can bill and they may try to leverage people through technologists, nurses, and physician assistants, who can generate income to the practice. Still, few physicians apply this concept broadly enough in their practices to result in any real wealth building. Even fewer physicians effectively leverage people or assets with respect to their personal finances.

Leverage of Advisors: This is a sub-set of the "leverage of people" category, but it is important enough for us to break out. As advisors to over 1,000 physicians across the U.S., we see first-hand every day the benefits that can be gained by busy physicians if they have an expert coordinated advisor team working for them. This might come in the form of reduced income taxes, higher portfolio returns, better–protected assets, a superior corporate structure, better-leveraged benefit plans, a true retirement roadmap—or the psychological benefit to the doctor that they know they're well advised and do not have to be their own CFO, essentially, while also managing the practice and trying to have a life. What is this peace of mind quantifiably? For many busy surgeons, quite a bit.

Make Your Assets Work for You: The Power of Compound Interest

"Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more." —*Benjamin Franklin*

"Compounding is mankind's greatest invention because it allows for the reliable, systematic accumulation of wealth." —*Albert Einstein*

We will start with some basics. At some point in your life, someone has undoubtedly explained to you the power of compound interest. Compound interest is a simple concept; your money makes money by virtue of interest earned on prior interest—which has become part of principal. In other words, the "compound" return is the subsequent return earned on earlier returns reinvested alongside the initial investment.

Compound interest is a simple way to build wealth—it just takes patience and discipline. You must have the patience to allow your money to grow on its own, and you must have the discipline to leave the money alone.

Let's take a look at a few examples that demonstrate the power of compound interest and how it affects retirement savings.

For our first set of examples, we will figure out what the annual contribution to a retirement fund would need to be in order to reach a goal of $1 million dollars by the age of 65. We will assume an annual rate of return of 6%, and we will assume for each age that the individual has already set aside a set amount in a fund.

These are basic examples. We are not factoring in taxes, inflation or any number of other factors that could affect any given specific situation. These examples are simply to put years and dollars into context for informational purposes only.

Current age	Retirement age	Expected annual return	Current amount saved in a fund	Goal	Annual Contribution Required
35	65	6%	$50,000	$1,000,000	$9,016.47
40	65	6%	$75,000	$1,000,000	$12,359.71
45	65	6%	$100,000	$1,000,000	$18,466.10
50	65	6%	$200,000	$1,000,000	$22,370.21
55	65	6%	$250,000	$1,000,000	$41,900.97
60	65	6%	$500,000	$1,000,000	$58,696.20

As you can see above, in the example of a 40-year-old with $75,000 in savings, who puts away $12,359.71 annually for 25 years, they save approximately $383,992.75 out of pocket.

$$12{,}359.71 \times 25 = 308{,}992.75 + 75{,}000 = 383{,}992.75$$

However, the 6% interest compounding over 25 years accounts for an additional $616,007.25, taking the individual to $1,000,000. The money earned via compound interest nearly doubled what the individual actually saved out of pocket.

$$383{,}992.75 + 616{,}007.25 = 1{,}000{,}000$$

Factoring In Inflation and Taxes

The above examples demonstrate the power of compound interest, but they do not tell the whole story. What happens when we account for two very real and important drags to real investment returns—taxes and inflation? What do you really have to save in order to reach your retirement goals? Also, if we want to look at saving to maintain a lifestyle in retirement, it is important that we calculate based on that—not just a stagnant lump sum at age 65.

In this way, if we factor in 3% inflation and a 30% tax rate, and assume now 7% returns, net of fees (a very generous assumption), and then calculate for an annual income requirement, you will see that you must save much more than previously calculated.

Below, we examine the annual required savings amounts for two basic levels of after-tax retirement wealth—$120,000 and

$240,000. In other words, if you think you can live comfortably on $10,000 per month after taxes today and want to project what you would need to save each year so that you can maintain that same lifestyle in *2013 dollars* when you get to age 65, look in the $120,000 column. If you require about $20,000 after-tax per month today and want to maintain that level of lifestyle in retirement, then the $240,000 is your column.

Age	Retirement Income Goal—in 2013 Dollars	Required Annual Savings—After-Tax	Retirement Income Goal—in 2013 Dollars	Required Annual Savings—After-Tax
35	$120,000	$66,748	$240,000	$132,956
40	$120,000	$79,387	$240,000	$158,774
45	$120,000	$97,993	$240,000	$195,986
50	$120,000	$127,627	$240,000	$255,254
55	$120,000	$183,328	$240,000	$366,657

Keep in mind, there is no guarantee returns will be 7% post-fee—in fact, that is a very generous assumption. Of course, as returns decrease, savings must increase to make up for it. Should returns creep into the 3-4% range for a period of time, you may have to double your actual savings to reach your goals. Also, if returns decrease, you will have to fight the urge to increase your risk tolerance just to make up for it—especially as you get older and closer to retirement.

As you can see above, there are some significant savings requirements here. While we assume $0 other savings to get you to the goal and you may have some (real estate equity, etc.), this underscores the need for a well-modeled, comprehensive financial plan. As Peter quoted Coach John Wooden saying, "Failing to plan is a plan to fail."

Accumulating and sustaining wealth during volatile markets is not easy. There are different ways to build wealth in up, down, and sideways markets that go beyond socking money away, diversification, and managing risk. We will discuss some of these later in this book.

See Opportunities Around You

Many orthopaedic surgeons and sports medicine specialists already recognize the many opportunities to become a "doctrepreneur" in the enormous healthcare business space.

If you haven't yet seriously looked at your position in the healthcare system as a source for wealth creation, now is the time. Spending on healthcare in the U.S. in 2010 accounted for 17.6% of the Gross Domestic Product.[1] With an estimated $2.7 trillion spent on healthcare expenditures in the U.S. in 2011 and projections for 2016 reaching $3.6 trillion, it is obvious that there are opportunities all around you.[2] Here are a few to consider:

Real Estate: One way to get started leveraging your practice to create more wealth is to consider the physical location of your practice. Would it make more sense to own the building rather than leasing space? If you owned the building, could you also rent space to others? Investing in commercial real estate may seem daunting, but it can provide for reliable streams of additional income.

Ambulatory Surgery Centers (ASC): Getting involved in or starting a surgery center provides physicians the opportunity to pool services, increase efficiency, get higher percentages of reimbursement for procedures, and obtain higher profits with the same working hours. Many centers help doctors increase the quality of care and decrease overall costs to patients. Baby boomers demand relief from their ailments, be it a joint replacement or treatment for an injury. They typically seek out "one-stop shops" and treatment options that call for the shortest possible recovery time and the lowest possible out-of-pocket costs. Catering to the aging boomer population could be a lucrative endeavor.

Medical Devices: As more than 70 million boomers hit retirement age in the coming years, you can expect medical device sales and development to continue to rise—despite a 2.3% tax on medical devices that began in 2013.[3] Indeed, by 2030 an estimated 4

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[1] Statistics taken from the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

[2] *Id.*

3 Section 4191 of Internal Revenue Code—effective December 31, 2012.

million knees will need to be replaced in the U.S. alone.[4] With an aging population and an improving economy, the government is projecting spending on medical services to reach nearly 20% of the U.S. gross domestic product by 2021.[5]

As frontline participants in the ever-expanding field of healthcare, you have the ability to realize opportunities before others and get involved early. Stay cognizant of what is going on in your field. Stay alert to opportunities. Don't be afraid of change—be prepared take advantage of innovation to make your practice more profitable. Always seek out ways to make your line of business work for you.

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4 *Projections of Primary and Revision Hip and Knee Arthopasty in the U.S from 2005 to 2030*; The Journal of Bone and Joint Surgery, American Volume; 2007 Apr,89 (4): 780-5; S. Kurtz; K. Ong; E. Lau; F. Mowat; and M. Halpern

5 Statistics taken from the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group

WEALTH PROTECTION PLANNING

For Orthopaedic Surgeons and Sports Medicine Specialists

As a busy surgeon, I know time is a physician's most valuable asset. That is why my co-authors and I have created a short book focusing on four concise lessons that can have a significant impact on your practice efficiency and long-term financial well-being. Featuring strategies for practice structure, tax and cost reduction, asset protection and building wealth in up, down and sideways markets, we wrote the book in a Challenge-Solution format that allows you to focus on the areas you find most valuable. Thank you in advance for taking the time to read it.

– Peter J. Millett, MD, MSc

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